

STATE OF SOUTH CAROLINA

(Caption of Case)

In re:

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

Petition of Duke Energy Carolinas, LLC For An
Accounting Order To Defer Certain Environmental
Compliance Costs At Unit 5 of the Cliffside Steam
Station

DOCKET

NUMBER: 2010 - ____ - E ____

(Please type or print)

Submitted by: Charles A. Castle

SC Bar Number: 79895

Address: 526 S. Church Street, EC03T
Charlotte, NC 28202

Telephone: 704-382-4499

Fax: 704-382-4494

Other:

Email: alex.castle@duke-energy.com

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously
☐ Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certificatio
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigator
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input checked="" type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2010-

In the Matter of:)	
)	DUKE ENERGY CAROLINAS, LLC'S
Petition of Duke Energy Carolinas,)	PETITION FOR AN ACCOUNTING
LLC For An Accounting Order To)	ORDER TO DEFER CERTAIN
Defer Certain Environmental)	ENVIRONMENTAL COMPLIANCE
Compliance Costs At Unit 5 of the)	COSTS AT UNIT 5 OF THE CLIFFSIDE
Cliffside Steam Station)	STEAM STATION
)	

Duke Energy Carolinas, LLC ("Duke Energy Carolinas" or "the Company") petitions the Public Service Commission of South Carolina ("the Commission") pursuant to S.C. Code Ann. § 58-27-1540 (Supp. 2009) and 26 S.C. Regs. § 103-825 (Supp. 2009), and other applicable rules and regulations of the Commission, for an accounting order authorizing the Company to defer in a regulatory asset account certain post-in-service costs that will be incurred in connection with the addition of the Cliffside Unit 5 Steam Station flue gas desulfurization equipment ("FGD" or "scrubber") related to environmental compliance, which was placed in service on October 12, 2010. Duke Energy Carolinas is seeking to defer the incremental costs that are being, or will be, incurred from the date this asset was placed in service, and was used and useful in providing electric service to its South Carolina retail customers, to the date the Company is authorized to begin reflecting in rates the recovery of such costs on an on-going basis.

The incremental costs for which this deferral treatment is requested include depreciation, cost of capital, property taxes, and the related incremental non-fuel

operation and maintenance expenses. The Company contemplates filing an application in June 2011 to increase its electric base rates to reflect, among other things, the annual costs of this addition. The application will also include a levelized amount to amortize and recover over a period of years the costs deferred and accumulated in the regulatory asset account requested in this petition. The plant cost of these assets is approximately \$583 million (\$143 million allocable to Duke Energy Carolinas' jurisdictional South Carolina retail customers) and the potential adverse impact to the Company's annual earnings associated with this asset addition (in the absence of the requested deferred accounting treatment) is approximately \$128 million before income taxes (nearly \$31 million allocable to Duke Energy Carolinas' jurisdictional South Carolina retail customers).

Notably, the Company's earnings for the twelve month period ending June 2010 were below the authorized equity rate of return allowed by this Commission. Duke Energy Carolinas will suffer an additional sizeable decline from its allowed equity rate of return in 2010 and 2011 unless the Company is permitted to defer the costs requested. Avoiding such an adverse earnings impact is important to assure Duke Energy Carolinas can achieve sustainable financial results necessary to maintain access to needed capital on reasonable terms, particularly during this time of global financial and credit crisis. The request for relief will not involve a change to any of Duke Energy Carolinas' retail rates or prices at this time, nor will it require any change in any Commission rule, regulation or policy. In addition, the issuance of the requested accounting order will not prejudice the right of any party to address these issues in a subsequent general rate case proceeding.

Accordingly, neither notice to the public at-large, nor a hearing is required regarding this petition.

In support of this petition, Duke Energy Carolinas respectfully shows the Commission the following:

Name and Address of Duke Energy Carolinas

1. The correct name and post office address of the Company are:

Duke Energy Carolinas, LLC
Post Office Box 1006
Charlotte, NC 28201-1006

Notices and Communications

2. The names and addresses of the attorneys of Duke Energy Carolinas who are authorized to receive notices and communications with respect to this petition are:

Charles A. Castle
Senior Counsel
Duke Energy Carolinas, LLC
P. O. Box 1006 (EC03T)
Charlotte, North Carolina 28201-1006
Telephone: (803) 382-4499
alex.castle@duke-energy.com

Frank R. Ellerbe, III, Esquire
Bonnie D. Shealy, Esquire
Robinson, McFadden & Moore, P.C.
P.O. Box 944
Columbia, South Carolina 29202
Telephone: (803) 779-8900
fellerbe@robinsonlaw.com
bshealy@robinsonlaw.com

Description of the Company

3. Duke Energy Carolinas is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the central and western portions of North Carolina and the western portion of South Carolina. The Company also sells

electricity at wholesale to municipal, cooperative and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission. Duke Energy Carolinas is a public utility under the laws of South Carolina and is subject to the jurisdiction of this Commission with respect to its operations in this State pursuant to the provisions of Chapter 27 of Title 58 of the Code of Laws of South Carolina. The Company is a corporation organized and existing under the laws of North Carolina and is a public utility under the laws of that State. Accordingly, its operations in North Carolina are subject to the jurisdiction of the North Carolina Utilities Commission.

ADDITION OF THE CLIFFSIDE UNIT 5 STEAM STATION SCRUBBER

4. Duke Energy Carolinas is committed to installing environmental control technologies to reduce nitrogen oxide (“NO_x”) and sulfur dioxide (“SO₂”) emissions from its coal-fired generating units. Duke Energy Carolinas’ compliance plans rely heavily on the use of Selective Catalytic Reduction (“SCR”) and Selective Non-Catalytic Reduction (“SNCR”) systems for NO_x reductions and Scrubbers for SO₂ reductions. The Cliffside Unit 5 scrubber is necessary for compliance with Phase 1 of the Federal Clean Air Interstate Rule (“CAIR”)¹, which began in 2010. The scrubber for Unit 5 at the Cliffside Steam Station was completed and placed in service October 12, 2010. The cost of the Cliffside Unit 5 scrubber has been financed wholly by Duke Energy Carolinas’ investors. The Company’s incremental annual cost of depreciation, non-fuel and non-fuel-related operation and maintenance expense, and cost of capital related to placing the Cliffside Unit 5 scrubber in service approximates \$128 million (nearly \$31 million allocable to its jurisdictional South Carolina retail customers) from the in-service date of October 12,

¹ See 70 Fed. Reg. 25162, 15A NCAC 02D .2400, State of North Carolina v. Environmental Protection Agency, 531 F. 3d 896 (2008) and State of North Carolina v. Environmental Protection Agency, 550 F. 3d 1176 (2008).

2010 through December 31, 2011. The total costs associated with the Cliffside Unit 5 scrubber to be deferred will be based on the dates the scrubber was placed in service through the date the annual cost of owning and operating the Cliffside Unit 5 scrubber is reflected in the Company's base rates.

FINANCIAL CONSEQUENCES OF DUKE ENERGY CAROLINAS' REQUEST

5. In its quarterly financial report for the twelve months ended September 30, 2010, filed with the Commission, Duke Energy Carolinas reported earnings significantly less than the rate of return on jurisdictional common equity approved by the Commission in its most recent general rate case. The proposed deferral will not result in the Company earning more than its authorized South Carolina rate of return in 2011. In fact, even if the proposed deferral is assumed, Duke Energy Carolinas projects that in 2011 it will earn below its authorized rate of return. The nearly \$31 million of costs (as allocated to the Company's jurisdictional South Carolina retail customers) Duke Energy Carolinas seeks to defer is material and equates to more than 100 basis points in the Company's South Carolina retail rate of return on common equity that it can earn in 2011. At the same time, because Duke Energy Carolinas will propose to recover the deferred costs over a multi-year period in its next rate case, the ultimate rate impact of this deferral on customers will not be significant.

6. The Commission is aware of the significant capital expenditures Duke Energy Carolinas must make in the foreseeable future and beyond to comply with environmental requirements, meet customer demand, and modernize its generation fleet and power delivery system. In the current global financial crisis, the Company's earnings, credit quality, and financial performance are even more closely scrutinized by

the financial community generally, and potential investors and credit rating agencies in particular. Many of the fundamental financial ratios reviewed by the various rating agencies in rating the creditworthiness of Duke Energy Carolinas' debt would be adversely impacted by a denial of the requested deferred accounting treatment. In light of the Company's significant capital needs and the global credit crunch, maintaining credit quality is both critical and challenging. The Commission's approval of the requested deferred accounting treatment will enhance the Company's ability to attract necessary capital on a reasonable and timely basis because it re-enforces the market's positive perception of a constructive regulatory environment in South Carolina. Such approval will help mitigate the potential for a significant deterioration in earnings in 2011, which will benefit both the Company and its customers in helping assure investors' confidence in the Company and help assure access to needed capital on reasonable terms.

CONDITIONS

7. The accounting order will not preclude the Commission from addressing the reasonableness of the costs deferred in the regulatory asset account in the future general rate proceeding.

CONCLUSION

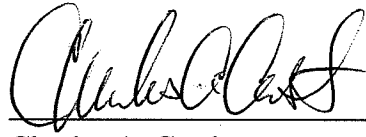
8. In summary, authorizing deferral of the incremental annual costs relating to placing in service the Cliffside Unit 5 scrubber is important to the maintenance of the Company's credit quality and financial integrity and will avoid deterioration in its 2011 level of earnings. The completion of the Cliffside Unit 5 scrubber was required to comply with Phase 1 of CAIR. It is appropriate and reasonable to defer these incremental costs to avoid a further deterioration of the Company's earned rate of return.

9. The total investment in the Cliffside Unit 5 scrubber is financially significant and constitutes an extraordinary item of cost. Due to the potential for adverse earnings impacts associated with placing large projects in service, and mindful of the negative financing consequences that can flow from such adverse impacts, this Commission has historically authorized deferred accounting for post-in-service costs of major generating plant additions from the date the units were placed in service to the date rates reflected the cost of the plants. For example, in its Order No. 91-1022, the Commission authorized the deferral of \$15.607 million of the costs associated with the Company's Bad Creek Pumped Hydroelectric Station during the period between commercial operation of each unit and the date the new rates were approved reflecting the inclusion of the Bad Creek costs. More recently, in its Order No. 2009-254, the Commission authorized deferral of the costs incurred from the in service date of the Allen Steam Station scrubbers to the date the Company's new rates became effective. The Commission has authorized similar deferral accounting treatment for Duke Energy Carolinas and other utilities for the costs of other generating plants, and the Company respectfully requests that the Cliffside Unit 5 scrubber costs be treated consistently with this past Commission precedent relating to its treatment of similar costs.

WHEREFORE, Duke Energy Carolinas respectfully requests that the Commission allow it to establish a regulatory asset account to which the Company may charge the post-in-service costs incurred related to the Cliffside Unit 5 scrubber from the date these assets were placed in service until the date the related costs of these assets are reflected in the Company's electric base rates.

Respectfully submitted this 1st day of December, 2010.

DUKE ENERGY CAROLINAS, LLC



Charles A. Castle
Senior Counsel
Duke Energy Carolinas, LLC
P.O. Box 1006/EC03T
Charlotte, North Carolina 28201
Telephone: (704) 382-4499
alex.castle@duke-energy.com

Frank R. Ellerbe, III, Esquire
Bonnie D. Shealy, Esquire
Robinson, McFadden & Moore, P.C.
P.O. Box 944
Columbia, South Carolina 29202
Telephone: (803) 779-8900
fellerbe@robinsonlaw.com
bshealy@robinsonlaw.com